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SUBJECT: "POLITICAL EARTHQUAKE" - PRESIDENT CHEN IMPLICATED
IN CORRUPTION CASE AGAINST FIRST LADY WU SHU-CHEN

Classified By: AIT Political Chief James L. Huskey,
Reasons: 1.4 (b/d)

11. (C) Summary: The Taipei Prosecutor's office today issued an indictment against President Chen Shui-bian's wife Wu Shu-chen for corruption and falsifying documents in the use of Presidential Office special funds claimed to have been used for secret diplomacy. President Chen was implicated in the corruption case against Madame Wu but was not indicted because of his presidential immunity. Chen has been under pressure from the opposition to step down over corruption allegations for several months, and this pressure will now increase dramatically. End Summary.

12. (C) Chang Wen-cheng, spokesman of the High Prosecutor's Office in Taipei, announced at a press conference on November 3 the results of Prosecutor Chen Jui-jen's investigation of alleged misuse of Presidential Office special funds. The report resulted in indictments of four individuals, including First Lady Wu Shu-chen and former Presidential Office Deputy Secretary General Ma Yung-cheng. In the report, President

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Chen was implicated in the charges of corruption and document falsification against Wu Shu-chen, but was not indicted at this time because he enjoys presidential immunity. The prosecutor's report stated that legal action against Chen Shui-bian will wait until he has been recalled or steps down.

In its report, the Prosecutor rejected Presidential Office claims that all of the funds in question had been used in secret diplomacy, concluding that four of six claimed

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diplomatic cases were in fact falsified, involving fraud of NTD 14.8 million (more than USD 450 thousand) during the period from July 2002 to March 2006.

13. (C) Just hours before the prosecutor's press conference, Vice President Lu Hsiu-lien was called back urgently from a trip to Penghu, and Premier Su Tseng-chang, DPP Chairman Yu Shyi-kun, and DPP Caucus leader Ker Chien-ming were summoned to the Presidential Office for an emergency meeting. During

the early afternoon, the media began reporting both the upcoming indictments and the reactions to the indictments by politicians and commentators. Following release of the prosecutor's report, KMT Chairman Ma Ying-jeou called a press conference to urge President Chen to resign immediately; Shih Ming-te's "Depose Chen" movement announced plans to resume street protests in front of the Presidential Office this evening; and the pan-Green Taiwan Solidarity Union announced that it was deserting Chen and would now support the opposition's efforts to recall the President.

14. (C) One important key to Chen's future will be the position taken by the ruling DPP, which has been very cautious in its public comments so far. DPP legislator Bikhim Hsiao told AIT that the party will be holding an expanded Central Executive Committee (CEC) meeting at 7:00 p.m. this evening, characterizing the situation as "pretty bad." She expected there will be internal criticisms of how the issue has been handled, and believed that the DPP may announce a decision after the meeting, which could range from condemning corruption to expelling people from the party. In a separate discussion, DPP elder and Examination Yuan President Yao Chia-wen told AIT that he was not confident that the CEC would once again unite behind President Chen, as it did during the "Depose Chen" movement over the past several months. DPP legislator Hong Chi-chang told AIT he personally hoped that Chen would step down, in line with the standards and principles previously stated by the President. The President should observe higher standards than the law, which provides only the lowest standards, Hong observed. Hong believed that the key at the meeting this evening will be the stance taken by Premier Su Tseng-chang. The party meeting will seek a consensus position, but he acknowledged that there may be divisions. Hong pointed out that those who want to continue protecting Chen will argue that an indictment is not a judgment. Hong also expressed the hope that President Chen himself will make a statement in response

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to the Prosecutor's report.

15. (C) In a separate discussion with AIT, DPP Policy Office staff member Chang Pai-ta called the prosecutor's report a "political earthquake" and said the TSU's decision to join the recall effort increased the difficulties faced by President Chen and the DPP. He believed it very unlikely that the party would do nothing against Chen at its meeting this evening. Chen has lost legitimacy and it will be very difficult for the party to argue that Chen has immunity and the legal process should be allowed to run its course. Chang also noted that a group of DPP LY staff assistants would be issuing a statement this evening urging the DPP to expel Chen. Chang also believed some DPP LY members might break ranks from a possible decision to protect Chen.

16. (C) KMT legislator Joanna Lei told AIT that KMT Chairman Ma Ying-jeou hopes to persuade Chen to step down voluntarily by appealing to his sense of moral obligation to Taiwan. Failing that, Ma's strategy is to convince the DPP that pressuring Chen to step down would be better for both Taiwan and the DPP. Nonetheless, Lei added, neither she nor Ma expected Chen to step down voluntarily. Chen will fire anyone who dares to challenge his leadership, Lei predicted, including Premier Su Tseng-chang, and will fill their positions with loyalists. Vice President Annette Lu and Premier Su would have to join forces to topple Chen, Lei suggested, but DPP Chairman Yu Shyi-kun and those close to Chen and Yu would oppose such a move. The KMT will move forward with the third recall against Chen early next week and will allow time to try to persuade DPP legislators, such as Lin Cho-shui, to support the recall effort. If the DPP follows previous practice and boycotts the recall, Lei said, the KMT will move on to impeach the President. Lei also suggested that Wu Shu-jen's indictment showed prosecutor Chen Jui-jen's courage and independence in standing up to enormous pressure from the President's office.

17. (C) Soochow University professor and "Depose Chen" movement international spokesman Emile Sheng told AIT that movement leader Shih Ming-te and his followers were "elated that justice had been served" by the indictment, and that demonstrations over the next few days will be an expression of happiness, not anger. Sheng said that he and other movement leaders had proposed delaying any demonstration for a few days, in order to give the DPP enough time to "do the right thing," but they were overruled by others, including Shih Ming-te himself, who thought it better to pressure Chen right away. According to Sheng, the accusations against Chen were precise and well-substantiated, leaving no room for Chen or his defenders to quibble. The "Depose Chen" protest movement will not turn violent in the short term, Sheng stressed, but people's frustration and the risk of violence will increase if Chen ignores the evidence against him and refuses to step down.

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